



How can businesses and organizations invest in our planet?

ESG voices podcast series

Musical intro

Announcer:

Hello and welcome to the first episode of ESG voices! This podcast series addresses the opportunities and challenges within ESG, through interviews with ESG and IMPACT specialists from KPMG and beyond.

Throughout this series, we will discuss a broad range of environmental, social and governance issues, aiming to support governments, businesses, and communities in creating an equitable and prosperous future for all.

We are pleased to kick off this podcast series on Earth Day! This year, the theme for Earth Day is *Invest in our planet*. It's a fitting theme for today's episode given we have brought together a panel of ESG leaders to discuss what ESG is, potential ESG challenges and opportunities, and the United Nations Sustainable Development Goals (also known as the SDG's), as well as to provide advice on building a sustainable and responsible future.

Joining in the conversation are KPMG International's Jennifer Shulman, Global Lead of ESG Advisory Hub, Fernando Faria, Global Deputy Head of KPMG IMPACT, and Laura Frigenti, Global Head of IDAS Institute. Thank you all for joining today.

To kick off today's conversation, perhaps we can start at the beginning and take a deep dive into what ESG is. Jennifer, in your own words, could you describe ESG, what it means for businesses and why you believe ESG has shot to the top of c-suite agendas?

Jennifer:

Well, that's a great question. ESG stands for environmental, social, and governance. What these are a set of criteria or standards that help guide a company's operations. Oftentimes, socially conscious investors will use ESG criteria to help screen potential investments.

The environmental criteria generally considers how a company performs as a quote unquote steward of nature, if you will, the social criteria examine how a company manages its relationships with its employees, buyers, customers and the communities where it operates.

And governance deals with a company's leadership, executive pay, audits, internal controls and certain shareholder rights.

There are multiple ESG criteria in the market right now running across many different standard bearers. So you'll hear initials like SASB, IFSB, WBCSD, TCSD, ISSB. All of them are essentially driving and helping companies more transparently, and in a traceable manner report on what are called their non-financial ESG metrics. And that is, in a nutshell, what ESG is. What it is not, though, is a goal. Companies themselves will set their ESG based goals.

So to your second question, what does it mean for organizations, I look at it as the opportunity to create what we call purposeful profits. In many ways, I say over the last two and a half years, the world has shifted ESG or sustainability reporting used to be a nice to have, it's now really a have to have for most corporations. The notion of how to be a profitable company isn't just how profitable you are anymore. It's literally how have you generated that profit? That now matters. And it's mattering in a very deep sense.

You also ask, why has ESG gone up to the top of the C suite executives' agenda? There's a lot of different reasons for that. I have to say, though, that in light of Earth Day, the one that I would highlight is there is now a very real and very deep concern at the board level around the financial risk of climate change. And if the board cares, the C suite will care. These are questions that boards are now asking the C suite around what is the risk of not achieving the Paris Agreement on quote unquote, my company?

What happens if we don't limit global warming to 1.5 Celsius compared to preindustrial levels? What will happen if sea levels rise? What will happen if we lose biodiversity? What will happen if their increased instances of fires and flooding? What's the literal risk quantified in financial terms to the company if climate change isn't halted, stopped, change direction any of those metrics?

Announcer:

Thanks, Jennifer. So Fernando, turning to you, what does ESG mean to you and why is it paramount for organizations to embed ESG into everything they do?

Fernando:

I think it is a recognition that purpose matters, that organizations have an important role to play in protecting our planet, while contributing to prosperity and better quality of life for people around the world. And organizations have a role to play. And so there was a need to come up with these set of metrics, these ESG metrics to help measure and drive organization's. Clearly ESG is a revolution in the sense that with COVID, humanity recognize that we are vulnerable. This means that everyone, including corporates, all organization, they need to play their role in making sure we give future generations the possibility of enjoying the quality of life, that it should not be very different from those that we've enjoyed during our lifetime. It is also very clear for organizations that consumers are increasingly taking decisions based on their perception, on how the company they are buying from is performing against those challenges. And it's not just consumers, the wider stakeholders are doing the same, companies now have to adapt to this revolution, or face long term challenges. This requires embedding ESG principles in all their processes decisions. The C-level is starting to realize that ESG is not just a reporting requirement, they start to understand that their company's revenues and costs, its ability to raise finance, their company long term prospects is dependent on how successful they are in aligning their purpose. So that its organization is a force for good. So long term survival is dependent on their ability to embed ESG in all the processes, in all of their agendas, in all of their investment decisions.

Announcer:

Thanks, Fernando. Laura, you have an interesting perspective of what ESG is, given your work with governments and the public sector. Could you share your view on what ESG means to you based on your work?

Laura:

So, I work mainly with government and public sector, institutions, multilateral banks, bilateral agencies. So, for this set of organizations ESG is really the framework that is adopted to implement the agenda 2030. What is the agenda 2030? In September 2015, all countries in the world, with coordination from the United Nations signed an agenda which included 17 goals, drilling down to 169 targets that was basically providing to the whole world a shared blueprint to achieve peace and prosperity for the planet and for the people that live on the planet. So, this is the framework that involves goals related to

the preservation of the environment, and the improving of the living conditions of people, improving government governance conditions, and how each government organizes its resources and it's policy actions to be able to achieve these goals. So what does it mean? Obviously, it is, it means the need for a much better coordination among all the different agencies, a lot of these goals are somehow achieved by actions that do not belong to one individual to the, to the area of influence to one individual agency, that they really require working together. And that has been a very complicated results to achieve, but also means aligning the resources in such a way that these are spent to really achieve and implement actions that improve living conditions of people, that improve the environment, that includes the governance condition. Why is that that they are at the top of the government's agenda? Well, they are not only at the top of government agenda, they are the government agenda. There is a commitment that each country has made to implement this agenda to report on an annual basis to the international communities and to make sure that resources are aligned with the achievement of these goals.

Announcer:

Thanks Laura, thats great. Jennifer, Fernando and Laura, it seems there is a lot at play when it comes to ESG and a lot for organizations and the public sector to juggle. Could you walk us through some of the challenges you are seeing in the ESG space and how you have seen the challenges overcome?

Fernando:

One of the biggest challenges that we are seeing organizations facing is around the multiple frameworks around ESG. Today, many organizations are doing the question on what framework should I follow? What framework should I report upon? What are within that framework the ESG metrics that I should be using? And clearly this leads to a lack of consistency across reporting on companies that operate. So, this is a major issue that organizations are facing, the good thing is that there is an effort by international organizations, by standard setters in coming up together with a single way for companies to report upon. We had recently the SEC climate disclosure rules that actually, it is very clear the effort that was done to follow TCFD. So, organizations, international organizations, particular, the standard setters, the regulators, they understand that they need to come with a single way for companies to report upon, because these will drive much more consistency, and with that much more comparability that will then drive performance of companies in the ESG space.

Jennifer:

I see ESG as an arc in the sense that it in and of itself is a challenge and implementing ESG becomes the biggest challenge. So, some companies struggle with setting their ESG based goals. And I would actually say it's almost the easiest of the three challenges I would identify. The second one is developing the internal data needed to track progress towards these goals. ESG requires collection of data that is

not usual for companies. It's not just financial data that we're very used to gathering and assessing. ESG data involves environmental data, often with a science lens or understanding metrics around inclusivity and diversity and equity. These are hard metrics to gather. The third area which I think is probably the most fundamental, one of the most challenging is implementing the operational and business transformation needed to actually implement and achieve those goals. It's the idea, as I mentioned earlier of purposeful profit, it's the how, it's embedding this down through your organization and changing, not just the mindset in many cases, but the way they function, the way they track their achievements, the way they track how they're performing, is now different than just financial metrics. And for many multinational companies, there's a lot of different, I'll say, subsidiaries in many different countries around the world, that may have their own different lenses that they look at ESG through and coming up with the business transformation needed to actually achieve these ESG based goals on a global basis can be very, very challenging.

There's a few different ways that I've seen organizations try to address these challenges. And I say the first one is, and this is a really critical component, which is leading from the top, meaning it this has to be a C-suite driven initiative. If it isn't. Often, the challenges are not really effectively addressed. Second thing that I'm seeing many organizations and companies put in place is almost an ESG transition office. This is different and distinct. I would argue from a Chief Sustainability Officer, they may report into that, that officer position, but it is it's still a distinct position. And what this does, is it helps facilitate that business transformation, that operational transformation. That was one of the key challenges that we saw. It's important though that this transition office, not lose sight of the fact that these are, you know, these are for profit companies, profit is still a key driving component of ESG. It's not instead of it says well as, and then understanding data putting in place. Now starting now, that plan to start gathering that data, because that's going to be a really critical component going forward, you need to understand where you are today to understand how you're going to change and where you want to get to. And if you don't have that data in place, and that data plan in place, it will be virtually impossible to play catch up.

Laura:

I absolutely agree, in terms of the challenges, I would say that, in environments that are very often resource constrained, and against a very large and broad agenda, like the ESG agenda, the problem is how to prioritize against the limited resources. This is clearly something that governments are struggling with. The second type is the measurement, because lots of the countries, particularly the lower income countries that have relatively, little public sector capacity, they really don't have the baseline. So, it becomes very difficult to understand where you are, when you started, where you are going, if you cannot actually not measure. And so this is one of the areas where, for example, we are seeing that there is a lot of activities in the international development space, or has been the country's building their statistic about their ability of measuring, their ability of, you know, defining their baseline and making sure that therefore, they can appreciate what is the impact of individual activities on the process of achieving a certain result.

The way in which I have seen governments trying to, to overcome these challenges is well, first of all, I mean, in, like establishing mechanism to generate a better coordination in the countries, in terms of deciding the priorities, but also, to make sure that there is no duplication in the use of resources, there is no misuse. And I think that this is something that the international community, encourages very strongly, particularly in countries that have little capabilities that really they need to have someone that directs the traffic and decides what is going to be the plan of priorities and how resources are allocated around that. The second thing is, there is a whole discussion around innovative financing and innovative sources of financing. Until now, we have seen that this agenda has been mainly funded through pretty traditional sources of funding. There is this desire to bring in the private sector as a financier as well as a kind of an innovator in the achievement of the SDG's. Another important part is really to make sure that the reason understanding of what are the standards that needs to be achieved, and that there is a possibility of lowering the individual cost of, for example, you know, achieving some of the some of the SDG's. There is a way of implementing electrification projects, or water and sanitation projects, etc, that can be brought down to scale. And so all technical innovation, obviously will work towards the ability of countries to achieve the same results for a lower cost.

Announcer:

So, we have discussed some of the challenges within the space, could you all share a few of the opportunities you are seeing related to the rise of ESG in the board room?

Laura:

The first one is definitely technology. I would say that innovation and automation, artificial intelligence etc, etc. can have really a big impact on the how to build the type of infrastructure that are needed to achieve this results. The second one is the sense of urgency that I think, after the pandemic is even stronger in the international community, and as reached also public or laymen that were not necessarily, involved. So, I would say that there is so much more awareness, in some awareness, I see that there is the desire of people to actually contribute and being involved, and these contribution are all equally important from the large donation of corporations. And, of course, I mean, to the small, to the small contribution of individuals that now really want to be part of a bigger agenda, I think that there has been really a shift in this past few years on the eagerness of the public opinion to actually contribute to the agenda 2030. It's not only something that is responsibility of government, but it's something that is the responsibility of everybody. And so, everybody one way or the other, you know, wants to be part of this process.

Jennifer:

It's interesting. Oftentimes, when people talk about ESG, they see it as a cost or a burden, I actually see ESG in many, many companies driving and prompting new versions of innovation, new and novel solutions that can unlock hidden value in a company and unlock hidden value in their supply chain or value chain, and spark, you know, new ways of innovation within that company, whether it's the need for something like renewables

in energy, whether it's something as simple as metal straws, biodegradable corn based cups, these are small things, but for ESG, some of these never would have happened. And they're still proving to be in some cases very disruptive to the market. And other cases, moving along with the market, manufacturing products to consumers in ways that are significantly more ESG friendly, have a lower carbon footprint, use an ethical supply chain and have good governance behind them.

Fernando:

Another opportunity we are seeing related to the rise of ESG in the boardroom is that actually by embedding ESG in the purpose, they are driving the same sort of behaviors in the wider stakeholder network of that of that organization. So clearly, when a company does that, then it pushes the others in the market to do the same, which will then drive regulators to understand the importance of the topic and drive further action. So you get these this sort of collective effort, that it's only possible when the ESG gains the visibility at the level of the boardroom and not just on an isolated sustainability department. And that's what we need to meet and tackle the challenges that we that we are facing today, in terms of planet, in terms of people in terms of prosperity, and in terms of principles of governance.

Announcer:

Thanks, Fernando. To wrap up our conversation today, can I ask each of you to pass on some advice on today's topics to the listeners?

Fernando:

The advice I would like to pass to listeners is that actually every one of us, has an ESG role in their organizations but also as individuals. It is very clear that for us to address our biggest challenge, the challenges that we are facing, everyone needs to contribute to this agenda. So, there is a role for government, for organizations and then the debate about ESG but their role for every single one of us. And to do that, we need to get informed, we need to contribute to this agenda.

Laura:

I would say, don't get trapped into the grandiose agendas and the grandiose announcement. Try to segment this agenda which is daunting in its size and its complexity, and really try to tackle one bit at a time, particularly for countries that have limited capacity is better to achieve in a stable manner. A few things rather than spreading your limited resources too thin, and risk to have impact the overall. This is an agenda that has an impact on each and every one of us, on the future of our families, of our planet, of our communities.

Jennifer:

I would say that some of the key things to me, are data, data, and more data that accompanies ESG strategy, which is forward looking, needs to be married through the data to its annual reports, which is backward looking. And all of this needs to be transparent, traceable, and honest. ESG is, in many ways, an unforgiving space, and you are meant to be held accountable, held to task as companies are all the time. But in a way that is a little bit different. Because I think that the sincerity behind ESG is really quite important. And companies are going to miss the mark. I think that's a given. I think that that's a very short time frame for some very, very ambitious goals that we may not achieve. And it's important to understand in a very open and honest way, why companies may not have achieved them, the data to demonstrate that and then how they're going to shift their policies or their operational structure to try to achieve those goals. I think we've got a long road ahead of us, but I'm very excited about it. I think there's a lot of great work to be done.

Announcer:

Jennifer, Fernando and Laura, thanks again for speaking today, you've given our listeners a lot to think about and we look forward to hearing more about the many topics discussed today in future podcasts.

Join us again next time for more insights from ESG leaders and innovators. You can also find our latest insights covering a range of ESG topics by visiting home.kpmg/IMPACT. Thanks for listening!

Musical exit

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Designed by Evalueserve.

Publication name: ESG voices podcast series

Publication number: 138127-G | Publication date: April 2022